



# Pension Reform an Overview

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# What is Pension Reform

## Broad Overview

- **Adequate Income for Retirees**
- **Budget**
- **Capacity**
- **Demographics**

# The Details Matter

- **A**ge (RA)
- **B**enefit (RR)
- **C**ontribution (CR)

# **Common Problems and Constraints**

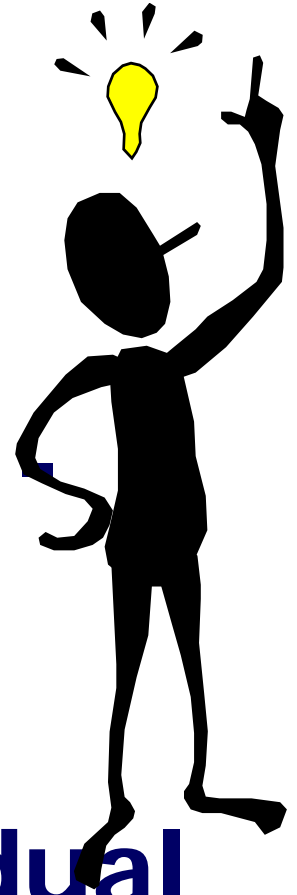
- Low Pension Benefits**
- Poor Administration**
- Bankrupt Pension System**
- No Private Pension Industry**
- In-kind Contributions and Benefits**

# **Additional Problems and Constraints**

- **Benefit Arrears**
- **Gray Economy**
- **Poor Compliance**
- **Low Retirement Age**
- **Declining Birth Rates**
- **Benefits Not Tied to Contributions**

# Solutions

- **Reform the 1st Pillar**
- **Private Pension Funds**  
**2nd**  
**and 3rd Pillars**
- **Introduction of Individual**  
**Accounts for all Pillars**
- **Education, Education,**  
**Education**



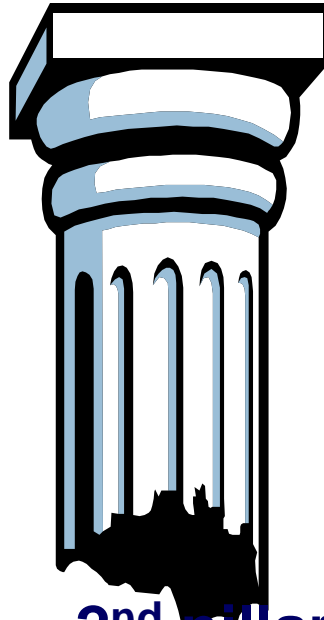
# The 3 (4?) pillars



**1<sup>st</sup> pillar**

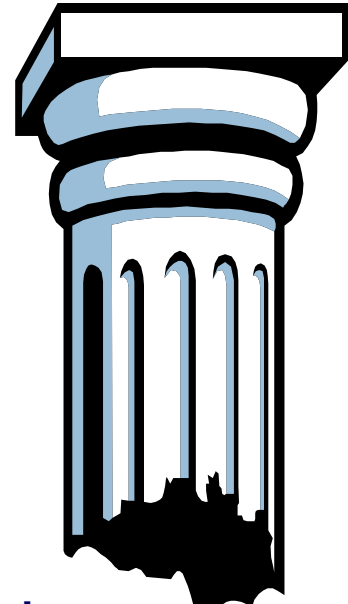
**PAYG**

**Government  
Managed  
Defined  
Benefit**



**2<sup>nd</sup> pillar**

**Mandatory  
Defined  
Contribution  
Privately  
Managed**



**3<sup>rd</sup> pillar**

**Voluntary  
Employer-  
Sponsored and  
Individual Plans**

# **Pension Reform Expectations**

- **Increased Savings**
- **Increased Pension Benefits**
- **Reduction of the Shadow Economy**
- **Steady Cash Flow for the Capital Market**



# **More Expectations**

- **Reduction in Payroll Tax Rates**
- **Timely and Reliable Reports**
- **Reasonable Rules and Uniform Enforcement**
- **Safety and Security of Privately Managed Accounts**



## The Cost?????

- Subsidizing the present pay-as-you-go system while it is still in operation
- Bonds used to compensate people for their "accrued" benefits" when moving from the old system to the new system

# **More Costs**

- **Investment in Human Capital Before and After the Reform**
- **Technology Upgrades**
- **Working with International Donors**

# **Pillar II Considerations**

- **Contribution Rate**
- **Centralized or Decentralized Collection**
- **Guarantees vs Market Risk Solely**
- **Public Involvement or Private Sector Only**
- **Technology Challenges**
- **New Supervisory Agency or Current Agency**

# **Second Pillars**



**Hungary 1998**

**Kazakhstan 1999**

**Poland 1999**

**Bulgaria 2001**

**Croatia 2002**

**Macedonia 2004**

# **Key Objectives**

- **Adequate Income for Retirees  
for Several Generations**
- **Fiscal Stability**
- **Fiscal Sustainability**
- **Capacity to Manage**
- **Capacity to Supervise/Regulate**

# How Has USAID Helped?



- **Legal and Regulatory Framework**
- **Actuarial Analysis**
- **Public Education**
- **Information Systems**
- **Compliance and Enforcement**
- **Education, Education, Education**

# What Has USAID Done in the Pension Reform Area?



**Bulgaria**

**Lithuania**

**Pension Reform  
Internships**

**Croatia**

**Macedonia**

**Romania**

**Hungary**

**Montenegro**

**Ukraine**

**Kazakhstan**

**OECD**

**INPRS**

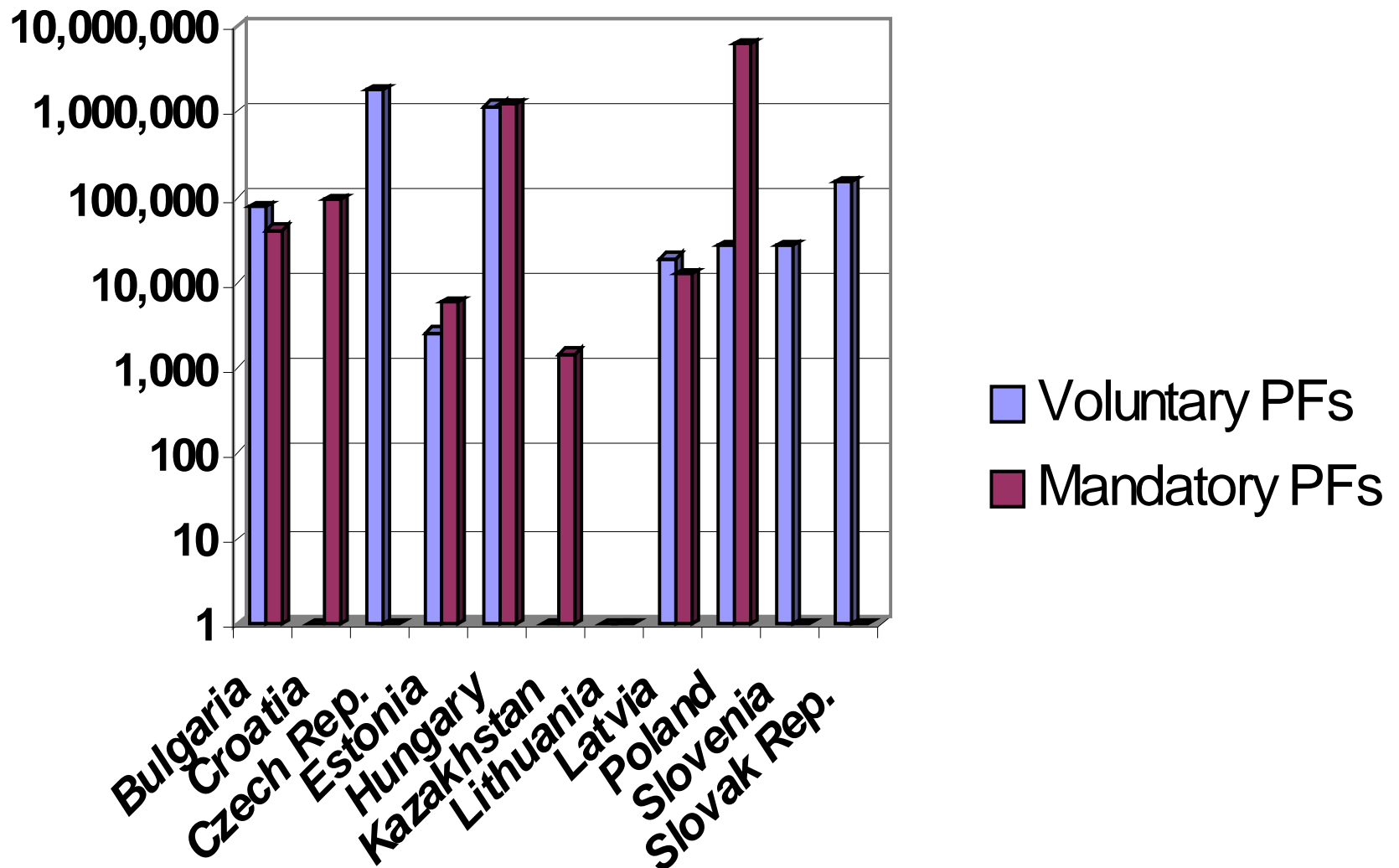
**Kosovo**

**Poland**

**World Bank**



# Pension Fund Assets in CEE



# Pension Assets in CEE

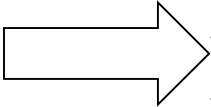
	Voluntary	Mandatory PF's		
Bulgaria	78,674	41,323		
Croatia	0	95,232		
Czech. Rep.	1,839,000	0		
Hungary	1,198,400	1,240,400		
Estonia	2,629	6,009		
Kazakhstan	0	1,473		
Lithuania	0	0		
Latvia	19,379	12,449		
Poland	28,027	6,206,546		
Sloania	27,089	0		
Slovakia	156,173	0		
<b>unit</b>	<b>1000 USD</b>	<b>year</b>	<b>2002</b>	
CEER Regional INPRS Pension Fund Statistics				

provided by EWMI

# Why *Pension Reform* Is Important

**A** - Alleviate Poverty for the Elderly  
 Social Protection Issue

**B** - Budget Impact  
 Fiscal Stability Issue

**C** – Capacity to Ensure Accuracy and Reliability, Protect Rights  
 Private Pension Funds =  
Steady Source of  
Investment Capital



**Thank you**  
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